

ZERO1: THE ART & TECHNOLOGY NETWORK

Audited Financial Statements

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ZERO1: The Art & Technology Network:

Report on the Financial Statements

We have audited the accompanying financial statements of ZERO1: The Art & Technology Network (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ZERO1: The Art & Technology Network as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ZERO1: The Art & Technology Network's June 30, 2015 financial statements and expressed an unmodified audit opinion on those financial statements in our report dated April 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been obtained.

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Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017 on our consideration of the ZERO1: The Art & Technology Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ZERO1: The Art & Technology Network's internal control over financial reporting and compliance.



Pleasanton, California
March 31, 2017

ZERO1: The Art Technology Network
Statement of Financial Position
At June 30, 2016 with Comparative Totals at June 30, 2015

	<u>Total 2016</u>	<u>Summarized 2015</u>
ASSETS		
Cash	\$83,343	\$239,448
Receivables	5,541	136,200
Prepaid expenses	<u>1,417</u>	<u>1,606</u>
TOTAL CURRENT ASSETS	<u>90,301</u>	<u>377,254</u>
OTHER ASSETS		
Property and equipment, net	<u>2,009</u>	<u>3,450</u>
TOTAL ASSETS	<u><u>\$92,310</u></u>	<u><u>\$380,704</u></u>
LIABILITIES		
Accounts payable	\$19,443	\$17,076
Accrued compensation	4,463	18,452
Accrued expenses		24,056
Short term loan		<u>80,000</u>
TOTAL CURRENT LIABILITIES	<u>23,906</u>	<u>139,584</u>
NET ASSETS		
Unrestricted	68,404	(83,880)
Temporarily restricted	<u>0</u>	<u>325,000</u>
TOTAL NET ASSETS	<u>68,404</u>	<u>241,120</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$92,310</u></u>	<u><u>\$380,704</u></u>

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network
Statement of Activities
For the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Summarized 2015</u>
SUPPORT AND REVENUE				
Support				
Contributions	\$186,925	\$12,525	\$199,450	\$177,548
Memberships				\$10,000
Grants & awards	459,065		459,065	407,337
Revenue				
Interest income	534		534	389
Art exhibit fees				350
Space rental				36,230
Gain / (loss) on asset disposal	525		525	(390,707)
Miscellaneous income	837		837	2,800
Net assets released from temporary restrictions				
Expiration of purpose & time restrictions	337,525	(337,525)		
Total Support and Revenue	<u>985,411</u>	<u>(325,000)</u>	<u>660,411</u>	<u>243,947</u>
EXPENSES				
Program services				
Art activities	454,625		454,625	466,827
Supporting services				
Management and general	137,638		137,638	130,446
Fund-raising	140,864		140,864	226,348
Total Expenses	<u>733,127</u>		<u>733,127</u>	<u>823,621</u>
INCREASE / (DECREASE) IN NET ASSETS	252,284	(325,000)	(72,716)	(579,674)
NET ASSETS AT BEGINNING OF YEAR				
As previously reported	(83,880)	325,000	241,120	945,794
Prior period adjustment	(100,000)		(100,000)	(125,000)
NET ASSETS AT BEGINNING OF YEAR RESTATED	<u>(183,880)</u>	<u>325,000</u>	<u>141,120</u>	<u>820,794</u>
NET ASSETS AT END OF YEAR	<u>\$68,404</u>	<u>\$0</u>	<u>\$68,404</u>	<u>\$241,120</u>

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network
Statement of Functional Expenses
For the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	Program Services	Supporting Services		Total	Summarized	
	Art Activities	Mgmt & General	Fund- Raising	Total	2016	2015
Compensation	\$126,369	\$53,357	\$101,095	\$154,452	\$280,821	\$377,326
Payroll taxes	7,180	3,031	5,743	8,774	15,954	27,447
Employee benefits	6,135	2,590	4,908	7,498	13,633	6,709
Subtotal compensation	139,684	58,978	111,746	170,724	310,408	411,482
Conferences & meetings		90	1,914	2,004	2,004	540
Donations to partners	10,000				10,000	
Dues, fees, licenses etc.	2,653	2,879		2,879	5,532	5,269
Equipment lease / purchase	2,104				2,104	1,489
Insurance	3,184	1,344	2,547	3,891	7,075	10,648
Interest expense		870		870	870	1,468
Occupancy	20,321	5,419	1,355	6,774	27,095	56,968
Outside services	172,028	17,603	18,281	35,884	207,912	164,149
Postage	533	7		7	540	3,283
Printing			1,796	1,796	1,796	827
Professional services		47,189		47,189	47,189	42,900
Supplies	36,276	2,260	692	2,952	39,228	4,910
Telephone & internet	766	324	613	937	1,703	11,424
Travel	66,428	401	1,401	1,802	68,230	35,093
Total before depreciation	453,977	137,364	140,345	277,709	731,686	750,450
Depreciation	648	274	519	793	1,441	73,171
Total Expenses	\$454,625	\$137,638	\$140,864	\$278,502	\$733,127	\$823,621

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network
Statement of Cash Flows
For the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	Total 2016	Summarized 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	(\$72,716)	(\$579,674)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Prior period adjustment	(100,000)	(125,000)
Depreciation expense	1,441	73,171
(Increase) decrease in operating assets		
Receivables	130,659	394,659
Prepaid expenses	189	558
Deposits		17,052
Increase (decrease) in operating liabilities		
Accounts payable	2,367	5,053
Accrued compensation	(13,989)	10,915
Accrued expenses	(24,056)	5,841
Deferred rent		(172,633)
Deferred revenue		(3,600)
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(76,105)	(373,658)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals of capital assets		392,927
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES		392,927
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term loan obtained		20,000
Short term loan forgiven	(80,000)	(25,000)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(80,000)	(5,000)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(156,105)	14,269
CASH AND CASH EQUIVALENTS, beginning of the year	239,448	225,179
CASH AND CASH EQUIVALENTS, end of the year	\$83,343	\$239,448
 Supplemental Information:		
Payments for interest expense	\$870	\$1,468

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE A – SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

ZERO1: The Art & Technology Network (Organization) is a California nonprofit public benefit corporation formed in 2000 operating in San Jose, California. ZERO1: The Art & Technology Network is where art meets technology to shape the future. As a 21st century arts nonprofit, ZERO1 works with some of the world's most fertile and creative minds from the fields of art, science, design, architecture and technology to produce an international showcase of work at the nexus of art and technology.

NOTE B – PROGRAMS

ZERO1's core programs include; historically, the ZERO1 Biennial and the ZERO1 Garage. Presently, ZERO1's most significant program work is represented by its US State Department and the Bureau of Educational & Cultural Affairs-American Arts Incubator.

Working with some of the most fertile and creative minds from the arts, science, technology, design and architecture, ZERO1 had historically produced the ZERO1 Biennial, an international showcase of work at the nexus of art and technology. Through public art installations, exhibitions, performances and symposiums; the ZERO1 Biennial featured cutting edge and provocative works from both a regional and global community of artists.

NOTE C – SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting standards for non-profit organizations. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Temporary restricted net assets include those assets, which are subject to a donor restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those assets, which are subject to a non-expiring donor restriction, such as an endowment. The Organization currently does not have any permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is not classified as a private foundation and is exempt from federal and state income taxes under section 501(c)3 of the Internal Revenue Code and Section 23701(d) of the California Code. The Organization is a publicly supported organization. The Financial Accounting Standards Board prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected to be taken on a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies and believes no material uncertain tax positions exist. The Organization's federal and state informational returns for the years ending June 30, 2012 through June 30, 2015 are subject to examination by regulatory agencies; generally three years after they have been filed.

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE C – SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows the Organization considers cash and cash equivalents to include all cash accounts held in financial institutions, with an initial maturity of three months or less.

Contributions

The Organization accounts for contributions received and contributions made in accordance with accounting standards for non-profit organizations. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence of and, or nature of any donor restrictions. Restricted contributions are reported as an increase in temporarily or permanently restricted net assets are reclassified to unrestricted net assets when donor requirements are met.

Contributions In-Kind

In-kind contributions are recognized as follows: Donated supplies are recorded at their estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered. In addition, the Organization receives donated services that do not require specific expertise but are nonetheless central to the Organization's operations and do not meet the requirements for recognition in the financial statements per generally accepted accounting principles.

Allowance for Doubtful Accounts

The Organization does not maintain an allowance for doubtful accounts on grants, memberships and donations receivable as these funding sources are likely to be received.

Property, Equipment and Depreciation

Property and equipment is recorded at cost when purchased or at estimated fair market value when donated. It is the Organization's policy to capitalize items that have a life greater than two years and a cost of \$500 or more. Depreciation is computed using the straight-line method over the asset's estimated useful life, which ranges from five to ten years. Depreciation is charged to the activity benefiting from the use of the facilities or equipment.

Revenue Recognition

The Organization recognizes revenue on the accrual basis of accounting. Grants, memberships and donations are recognized as revenue in the period in which they are awarded in writing. Restricted grants, memberships and donations are recorded as an increase in restricted revenue and are reclassified to unrestricted revenue as restrictions are met. Art exhibit fees and space rental fees are recognized as revenue in the period in which the related service is provided. The Organization's primary revenue sources are grants from local governments, foundations and corporations and memberships / contributions from individuals and corporations.

Indirect Expense Allocations

The costs of operating the Organization's program and supporting services have been summarized in the statement of functional expenses. Accordingly, salaries and related expenses have been allocated among the programs and supporting services benefited based on employee work assignments, as estimated by management. Shared expenses (such as occupancy, telephone, depreciation, etc) are allocated to program and supporting services based square footage of the space utilized in each functional area.

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE C – SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses a fair value hierarchy categorized into three levels, as follows:

Level 1 – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these balances does not entail a significant degree of judgment. Level 2 – Valuations are based on quoted prices for similar assets or liabilities in open markets from those willing to trade that are not active or for which other inputs can be corroborated by market data. Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement and represent the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

NOTE D – RECEIVABLES

Receivables are as follows:

	June 30, 2016	June 30, 2015
Current	\$5,541	\$136,200

For the year ending June 30, 2015 approximately 55% of the balance is due from the Hewlett Foundation and approximately 37% is due from the Warhol Foundation. The ability of the Organization's donations, grants and memberships to continue to provide amounts comparable with prior years may be dependent upon current and future economic conditions and budget constraints. While the Board of Directors believes the Organization has the resources to continue current and future programs, its ability to do so, and the extent to which it does continue, may be dependent on the above factors.

NOTE E – PROPERTY AND EQUIPMENT

Property, equipment and related accumulated depreciation is as follows:

	June 30, 2016	June 30, 2015
Equipment and Furniture	\$43,982	\$43,984
Software and Website Design	\$18,989	\$18,989
Subtotal	<u>\$62,971</u>	<u>\$62,973</u>
Accumulated Depreciation	<u>(\$60,962)</u>	<u>(\$59,521)</u>
Net Book Value	<u>\$2,009</u>	<u>\$3,452</u>

Depreciation expense is \$1,441 for the year ended June 30, 2016 and \$73,171 for the year ended June 30, 2015.

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE F – CONTINGENT LIABILITIES

Conditions contained within the various grants awarded to the Organization are subject to the funding agency's criteria and can be subject to audit. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria governing them. In such cases, the Organization could be held responsible for repayments to the funding agency for costs questioned or be subject to reductions of future funding. Management does not anticipate any questioned costs for the grants administered during the period.

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2016 the Organization's temporarily restricted net asset activity is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Biennial	\$250,000		(\$250,000)	\$0
Super Bowl Art Installation		\$12,525	(\$12,525)	\$0
Time Restricted	<u>\$75,000</u>		<u>(\$75,000)</u>	<u>\$0</u>
Total	<u>\$325,000</u>	<u>\$12,525</u>	<u>(\$337,525)</u>	<u>\$0</u>

NOTE H – PRIOR PERIOD ADJUSTMENT

After the year ending June 30, 2016 and prior to the date of this audit report management determined that they would not be able to fulfill a temporarily restricted grant awarded in the prior year and refunded this money to the donor. As a result, a prior period adjustment is necessary in order to properly reflect current year income and expense. The net effect of this adjustment is a decrease in net assets of \$100,000.

NOTE I – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end, June 30, 2016, through March 31, 2017, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of ZERO1: The Art & Technology Network;

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ZERO1: The Art & Technology Network (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ZERO1: The Art & Technology Network's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ZERO1: The Art & Technology Network's internal control. Accordingly, we do not express an opinion on the effectiveness of ZERO1: The Art & Technology Network's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in a separate letter that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ZERO1: The Art & Technology Network's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasanton, CA
April 1, 2016